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**NAVAL WAR COLLEGE  
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**CURBING CARTEL INFLUENCE IN MEXICO**

**by**

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**A paper submitted to the Faculty of the Naval War College in partial satisfaction of the requirements of the Department of Joint Military Operations.**

**The contents of this paper reflect my own personal views and are not necessarily endorsed by the Naval War College or the Department of the Navy.**

**Signature: \_\_\_\_\_**

**28 October 2011**

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## **Abstract**

There are several primary cartels in Mexico who flourish as suppliers of America's insatiable drug demand, while living under the soft laws of the Mexican government. Strategically, the cartel system is holding Mexico back from achieving its potential in the global market place. Cartel influence hampers legitimate business competition. Violence, combined with rampant corruption, creates insecurity and discourages economic progress in Mexico. This paper will focus on cartel business practices, leadership and organization as well as their strengths and weaknesses in shaping the problem. Next it will illustrate cartel means of influence, the impact on Mexico's economy and national security implications. Last, it will recommend long-term solutions for the government of Mexico in order to deny cartel sanctuary, force government negotiation for reform and diminish its influence for good.

## **INTRODUCTION**

There are several primary cartels in Mexico who flourish as suppliers of America's insatiable drug demand, while living under the soft laws of the Mexican government. As observed from U.S. news networks, Mexican cartel reporting focuses on horrific stories of violence between rivals, causing tragic loss of innocent life. Less emphasized is drug abuse in the U.S. and the Mexican Government's inability to stop the cartel drug trade. The former is a domestic, social issue every American must address for the sake of personal health and public safety. The latter is a foreign policy issue, affecting U.S. national security, and requires all instruments of national power to help Mexico end cartel violence, corruption, and economic instability. This paper will focus on cartel economics and recommendations for interdiction. In doing so, it will describe some common cartel business practices, cartel leadership and organization as well as their strengths and weaknesses in shaping the problem. Next it will illustrate cartel means of influence, impact on Mexico's economy and national security implications. Last, it will recommend long-term solutions for the government of Mexico in order to deny cartel sanctuary to and take control away from the cartels.

Current U.S. and Mexican law enforcement efforts will continue to disrupt cartel activity. The implementation of additional initiatives in parallel with law enforcement activities in Mexico is critical for any of them to achieve lasting effects. Pragmatism and brevity demand an initial focal point for Mexico with measured levels of support from the United States. In order to curb cartel influence and negotiate possible reformation without U.S. military intervention, the Mexican government must first interdict illicit finance from the top down, followed by long-term socio-economic improvement of rural Mexico.

## COUNTER-ARGUMENT

Since the 1800s, Mexico has maintained a grudge against the U.S. and is unwilling to take advice from America. In 1994, during a discussion about the U.S., the United Nations and Haiti, President Salinas said, "Having suffered an external intervention by the United States, in which we lost more than half of our territory, Mexico cannot accept any proposal for intervention by any nation of the region."<sup>1</sup> An old wound from the Mexican-American War justifies any underlying anti-American sentiment and adds reason to the following point of view.<sup>2</sup>

Given that President Calderon failed to get rid of the cartels, after five years of war, one could contest he is content with the drug trade and, therefore, is unwilling to interrupt the flow of drug money into Mexico.<sup>3</sup> His federal forces restrain only enough cartel activity to support his position on the drug war, but he never puts a dent in the illicit cash flow because it feeds Mexico's ailing economy.<sup>4</sup> The drug violence, far away in the border region to the north, does not compel the government in Mexico City to take any real or definitive action against the cartels. Besides, illicit cash flow (an estimated 30-40 billion USD a year at best) has a stabilizing effect on the Mexican economy.<sup>5</sup>

This visceral and cynical point of view is very plausible if the observer can divorce him or herself from the political realities the United States and Mexico share as border countries. It may feed one's desire to take punitive action against the Mexican government for its role in the U.S. drug problem, but it hardly considers that cartel influence did not

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<sup>1</sup> Tim L. Merrill and Ramón Miró, ed. *Mexico: A Country Study* (Washington: GPO for the Library of Congress, 1996)

<sup>2</sup> George Friedman, "Mexico and the Failed State Revisited," (*STRATFOR*, March 13, 2008), 4

<sup>3</sup> *Ibid.*, 1

<sup>4</sup> *Ibid.*, 4

<sup>5</sup> *Ibid.*, 3

manifest itself overnight, and future solutions will not depend on only one president's administration.

## **DISCUSSION**

The current drug war in Mexico demands U.S and Mexican commitments to conduct several interdependent lines of effort such as law enforcement, security and economic initiatives. Not one of these efforts can be a stand-alone course of action; therefore, an integrated plan is required.<sup>6</sup> According to Hal Brands at the Strategic Studies Institute, military and law enforcement actions against cartels have their place, but should not be treated as the solution for all of Mexico's cartel problems.<sup>7</sup>

Mexican drug cartels are nothing more than large business corporations with subordinate divisions responsible for trafficking drugs, cash and weapons, as well as cartel force protection services. Since the fall of the Colombian cartels in the 1980s, these organized crime syndicates developed international partners, lines of communications, and growing means of influence and power in their respective territories lining the Mexican coastline.<sup>8</sup> Cartel leadership resides in Mexico while much of its network spans both the United States and Mexico. This network facilitates the movement of drugs into the U.S. and the smuggling of cash and weapons south of the border. A separate array of criminal networks distributes the bulk of the illicit drugs flowing into the U.S. is for street-sale.<sup>9</sup> Based on National Drug Intelligence Center drug seizure data from 2009, land routes through

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<sup>6</sup> Alfred W. McCoy and Alan A. Block, *War on Drugs: Studies in the Failure of US Narcotics Policy* (Boulder: Westview Press Inc, 1992), 35

<sup>7</sup> Hal Brands, *Mexico's Narco-Insurgency and the US Counterdrug Policy* (Carlisle: Strategic Studies Institute, 2009), 40

<sup>8</sup> U.S. Department of Justice, *The National Drug Threat Assessment 2010*, (Washington DC, Feb 2010)

<sup>9</sup> Ibid.

the southwest border of the United States are the most frequently used points of entry versus maritime and air (by a ratio of over sixty to one).<sup>10</sup>

In 1997, a Lieutenant Colonel in the Mexican Army, while attending the U.S. Army War College wrote, “Narco-traffickers were the principal threat to Mexico’s national security and their power derived from their economic capacity for corruption.”<sup>11</sup> This speaks to more than the coercion of people in Mexican society; it identifies the root of cartels’ power, which is clearly their abundance of money. The cartel narcotics influence stains every facet of the economy in Mexico.<sup>12</sup> Within the last twenty years, drug trafficking organization (DTO) networks have evolved to remain safe and profitable. Individual cells, one or more persons, acting on their own, do not rely on external sustainment from their cartel hierarchy, and they established extensive lines of communications that connect nodes in both the U.S. and Mexico.<sup>13</sup> Command and control is elusive; leadership roles shift depending on cartel requirements for cover and concealment within in the population.<sup>14</sup> Cartel finances evolve along with the economy around them. Their portfolios resemble those of corporations vice gangsters, as they establish themselves as leading suppliers of illicit drugs in the U.S.<sup>15</sup>

Internally, cartel leadership retains all of the money, control and benefits from the enterprise and its cadre are very small.<sup>16</sup> Underprivileged workers, far lower in the hierarchy and widely spread across the country, handle the grunt-work of production, transportation,

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<sup>10</sup> U.S. Department of Justice, *The National Drug Threat Assessment 2010*, (Washington DC, Feb 2010)

<sup>11</sup> Lieutenant Colonel Antonio Solorzano, Mexican Army, *Mexico and Narco-trafficking* (Carlisle: US Army War College, 1997), 9

<sup>12</sup> Moises Naim, *Illicit: How Smugglers, Traffickers and Copycats are Hijacking the Global Economy* (New York: Anchor Books, 2005), 67

<sup>13</sup> Ibid., 226

<sup>14</sup> Ibid., 228

<sup>15</sup> Ibid., 76

<sup>16</sup> Sydney Weintraub and Duncan Wood. *Cooperative Mexican-U.S. Antinarcotics Efforts; A Report of the CSIS Simon Chair in Political Economy* (Washington D.C.: Center for Strategic & International Studies, 2010), 14



and sales.<sup>17</sup> This organizational structure insulates leadership from the effects of street interdiction. However, it is vulnerable when intense cartel competition or law enforcement causes chaos and instability. Once threatened, the leadership cell augments itself with more security, making its location and movements more conspicuous, and therefore, more susceptible to arrest.<sup>18</sup>

Cartels dynamically change their composition as threats to their organizations evolve. Today cartels must battle for territory, evade law enforcement, and compete with other South American organizations, which continuously interrupt the balance of power.<sup>19</sup> These conditions resulted in the partnership of several amicable cartels, which can be seen with the primary east and west coast organizations. However, cartel allegiances are for business first, as they share risks and markets only to protect profits.<sup>20</sup>

The cartels' illicit finances depend on the corrupted businesses and institutions that create a 'state criminalization,' silently supporting the drug enterprise.<sup>21</sup> Corruption in Mexico controls every facet of society, such as police, judges, state and local governments, as well as commercial banking, real estate and private industry.<sup>22</sup> On May 19, 1997, Secretary of Treasury Robert Rubin eloquently said:

Money laundering is the process that enables drug and gun traffickers and terrorist groups to convert illegal and unusable proceeds into usable funds. It is the 'life blood' of organized crime. But it is also the 'Achilles heel', as it gives us a way to attack the leaders of criminal organizations. While the drug kingpin and other bosses of organized crime may be able to separate themselves from street level criminal activity, they cannot separate themselves from the profits of that activity.<sup>23</sup>

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<sup>17</sup> Sydney Weintraub and Duncan Wood. *Cooperative Mexican-U.S. Antinarcotics Efforts; A Report of the CSIS Simon Chair in Political Economy* (Washington D.C.: Center for Strategic & International Studies, 2010), 14

<sup>18</sup> Ibid., 14

<sup>19</sup> Ibid., 13

<sup>20</sup> Ibid., 13

<sup>21</sup> Howard Campbell, *Drug War Zone; Frontline Dispatches from the Streets of El Paso and Juarez* (Austin: University of Texas Press, 2009), 276

<sup>22</sup> Stephen D. Morris, *Political Corruption in Mexico: The Impact of Democratization* (Boulder: Lynne Rienner Publishing, Inc., 2009), 108

<sup>23</sup> The White House, *International Crime Control Strategy* (Washington DC, 1998), 47

In the recent past, cartels easily laundered profits from banks inside the United States. Today, U.S. anti-money laundering (AML) laws and asset seizure laws, make money laundering a costly challenge for cartels.<sup>24</sup> Consequently, cartels smuggle huge amounts of bulk cash (tens of billions of U.S. dollars worth) back into Mexico annually. These shipments originate from large American cities, such as Atlanta, New York, Chicago and Los Angeles before DTOs transport them through points of entry into Mexico.<sup>25</sup>

There are many methods available in Mexico for laundering money. One of the most popular is the Black Market Peso Exchange (BMPE). Other such trust-based money exchanges are also available. More conventional methods, such as discrete banks over seas, front companies, project finance loan generation, real-estate purchases, and, of course, structured deposits into traditional banking institutions are popular.<sup>26</sup> As money-laundering service providers become more sophisticated, and offer more anonymity to the customer, the U.S. lawyers develop new legislation to combat these techniques. For example, in the U.S., prepaid credit cards make warrants virtually ineffective for law enforcement tracking of electronic money transfers. However, Nevada legislation (SB-82) passed on July1, 2009 allows police to freeze suspicious prepaid assets for investigation.<sup>27</sup>

Combined cartel income, estimated at tens of billions of U.S. dollars from the drug trade, adds little value to the Mexican economy when the cartel leadership retains all the wealth. The peasant majority at the bottom of the cartel organization remains financially

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<sup>24</sup> U.S. Department of Justice, *The National Drug Threat Assessment 2010*, (Washington DC, Feb 2010)

<sup>25</sup> Ibid.

<sup>26</sup> Moises Naim, *Illicit: How Smugglers, Traffickers and Copycats are Hijacking the Global Economy* (New York: Anchor Books, 2005), 227

<sup>27</sup> U.S. Department of Justice, *The National Drug Threat Assessment 2010*, (Washington DC, Feb 2010)

dependent with only enough wages to survive.<sup>28</sup> Ironically, Mexico's drug trade creates jobs, but the long-term effects are quite negative considering an estimated 50% of illicit cash never feeds back into the economy when it sits in cartel bank accounts over-seas.<sup>29</sup>

In some areas of Mexico, the illicit drug trade and the local economy are one in the same. For example, in several rural, agricultural areas, cartels act as de facto governments among the locals, as their drug money feeds everything, creating an 'artificial economy' that undermines true economic growth.<sup>30</sup> The ratio of producers to traffickers is roughly two to one, in each drug trafficking organization.<sup>31</sup> Estimates from 2008 showed that almost half a million people produce and move drugs in Mexico, with over half of them living at or below the poverty level.<sup>32</sup> This does not account for all of the other informal workers who support the drug trade with information, security, or other resources. In 2010, estimates showed that roughly half of Mexico's workers remain undocumented, receiving no government benefits and paying no taxes. This significantly dampens Mexico's true economic growth, which is evident when taxes account for only 12% of its annual GDP.<sup>33</sup>

Cartels do not report profits; therefore, empirical data are not available, and their true income is an educated guess.<sup>34</sup> By the same token, there are many other economically harmful losses occurring that are fundamentally difficult to quantify. Local businesses, residents and investors move out of cartel-controlled towns due to violence, which ruins many of Mexico's local economies.<sup>35</sup> Fear, extortion and intimidation and drug dependency are constant in the threatened life of impoverished Mexico, accounting for severe human

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<sup>28</sup> Viridiana Rios, "Evaluating the Economic Impact of Drug Traffic in Mexico," (PhD diss., Harvard University, 2008), 8

<sup>29</sup> Ibid., 9

<sup>30</sup> Colin Gray, "The Hidden Cost of the War on Drugs," (*Stanford Progressive*, May 2010)

<sup>31</sup> Viridiana Rios, "Evaluating the Economic Impact of Drug Traffic in Mexico," (PhD diss., Harvard University, 2008), 8

<sup>32</sup> Ibid., 8

<sup>33</sup> Sydney Weintraub and Duncan Wood. *Cooperative Mexican-U.S. Antinarcotics Efforts; A Report of the CSIS Simon Chair in Political Economy* (Washington D.C.: Center for Strategic & International Studies, 2010), 47

<sup>34</sup> U.S. Department of Justice, *The National Drug Threat Assessment 2010*, (Washington DC, Feb 2010)

<sup>35</sup> Viridiana Rios, "Evaluating the Economic Impact of Drug Traffic in Mexico," (PhD diss., Harvard University, 2008), 10

capital loss.<sup>36</sup> Mexico cannot compete globally if the international community refuses to invest in a country whose judicial system is corrupt and unable to protect its own interests (let alone the interests of the investor). Estimates show these losses at almost two billion dollars in revenue a year.<sup>37</sup>

Poverty and dependence on the drug trade is commonplace in areas under cartel control and without economic infrastructure.<sup>38</sup> If Mexico cannot reduce its social instability, it will lose its democracy and possibly transition into martial law, as the need for military action increases.<sup>39</sup> A shaky Mexico does not bode well for the United States' national security. Admiral Stavridis commented that U.S. security concerns "are symptoms of the deeper endemic problems of poverty and inequality" in the region.<sup>40</sup>

One can come up with several recommendations to handle Mexico's cartel situation, but a solution that complements current efforts with an economic focus should be pursued prior to a military-only solution. The lessons illustrated by the U.S. drug war in South America in the 1980s cannot be ignored. In Bolivia, for example, coca eradication pushed production to more disparate rural areas, thus increasing rural dependence on the drug trade. Military targeting of high value individuals failed to stop the reconstitution of the DTO networks, and U.S. support to local law enforcement was inefficient and focused only at the street level.<sup>41</sup> The Mexican government must articulate a desired end-state, to achieve through socio-economic reform, and focus on cartel transformation vice marginalization.

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<sup>36</sup> Viridiana Rios, "Evaluating the Economic Impact of Drug Traffic in Mexico," (PhD diss., Harvard University, 2008), 10

<sup>37</sup> Ibid., 11

<sup>38</sup> Ibid., 14

<sup>39</sup> Sidney Weintraub, *Unequal Partners: The U.S. and Mexico* (Pittsburg: University of Pittsburg Press, 2010), 71

<sup>40</sup> Hal Brands, *Mexico's Narco-Insurgency and the US Counterdrug Policy* (Carlisle: Strategic Studies Institute, 2009), 42

<sup>41</sup> Alfred W. McCoy and Alan A. Block, *War on Drugs: Studies in the Failure of US Narcotics Policy* (Boulder: Westview Press Inc, 1992), 78

The cartels' business organizations are adaptive, modern, and have plenty to offer, if rooted in legal, documented commerce that is beneficial to Mexican society.

The idea of cartel reform is developing in Mexico. However, it requires critical discourse, followed by new legislation, to become a viable option. On January 25, 2011, the Associated Press released an interesting article suggesting that La Familia, a notoriously violent cartel, in Calderon's home state of Michoacán, may be looking to negotiate a truce with the government, communicated with banners and letters found in the street saying the cartel had 'dissolved'. The authorities do not believe the claims, nor do they intend to negotiate, but regardless of the author, it reflects an underlying cartel need for legitimacy in the eyes of the public.<sup>42</sup>

On August 27, 2011, in reaction to a recent cartel attack on a casino that killed over 50 people, former president Vicente Fox expressed his desire for an open discussion regarding the feasibility of an amnesty agreement for the cartels through a government truce. Fox offered an attractive alternative to President Calderon's war on cartels, which has taken over 35,000 lives under his watch. In response to the ex-president's plea for peace, federal security official Alejandro Piere remarked that cartels will not accept any truce terms until they have no choice left but to negotiate.<sup>43</sup>

If President Calderon wants to address his country's organized crime situation, reduce violence and economic dependence on drug trafficking, he must invite cartel negotiations. As mentioned, cartels have no reason to consider alternative plans until Calderon threatens their means for organized crime, corruption, and influence. A recommended course of action is Calderon's implementation of a bold federal anti-money laundering campaign that stops

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<sup>42</sup> *Associated Press*, "Mexican Government: La Familia cartel in retreat," (January 25, 2011)

<sup>43</sup> *Associated Press*, "Ex-Mexico Prez Suggests Truce with Drug Cartels," (August 27, 2011)

cartel cash flow throughout the country. Additionally, a program of poverty reduction and homogenous distribution of wealth will be critical to raising Mexico's GDP and the continuation of successful anti-narcotics efforts.<sup>44</sup> Affirmative actions such as these, to improve Mexico's long-term economic problems, essentially deny sanctuary to organized crime.

In 1989, President Salinas saw the war on drugs in Mexico, as a Mexico-only problem and essentially negated U.S. cooperation. He refused to allow combined military operations with the United States in Mexico, which resulted in the erosion of U.S. trust, cooperation, and intelligence sharing with his government and military.<sup>45</sup> Today, Mexico's government enjoys good diplomatic relations with France, Spain, Italy, Britain and Columbia, all countries with considerable success in previous counter-terror efforts, which leads one to assume the Mexican government could benefit from their lessons.<sup>46</sup> For example, after years of Pablo Escobar's reign of terror, Colombian President Gaviria invited the U.S. to help Columbia stop the Medellin cartel.<sup>47</sup> U.S. intelligence and counter terrorism training greatly assisted the government of Columbia in proving its determination and ability to bring this criminal cartel to justice.<sup>48</sup>

Several Mexican cartels use terror tactics to intimidate and coerce the public. On July 15, 2010, a cartel car bombing in Ciudad Juarez targeted Mexican security forces in retaliation for their anti-cartel efforts. In the past nine years, cartels deployed three of the

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<sup>44</sup> Sydney Weintraub and Duncan Wood. *Cooperative Mexican-U.S. Antinarcotics Efforts; A Report of the CSIS Simon Chair in Political Economy* (Washington D.C.: Center for Strategic & International Studies, 2010), 49

<sup>45</sup> Sidney, Weintraub, *Unequal Partners: The U.S. and Mexico* (Pittsburg: University of Pittsburg Press, 2010), 73

<sup>46</sup> George W. Grayson, *La Familia Drug Cartel: Implications for United States-Mexico Security* (Carlisle: Strategic Studies Institute, 2010), 80

<sup>47</sup> Mark Bowden, *Killing of Pablo: The Hunt for the World's Greatest Outlaw* (New York: Atlantic Monthly Press, 2001)

<sup>48</sup> 138

<sup>48</sup> Ibid., 138

five vehicle-borne improvised explosive devices detonated in Mexico.<sup>49</sup> The fact that cartels have and use weapons, associated with violent-extremist organizations, is evident. Mexican authorities deny the cartel label ‘narco-terrorism’ for fear the international community, such as the United Nations, will pressure the Mexican government to take stronger actions against cartels.<sup>50</sup> As the United States’ perception of a cartel threat to national security grows, Calderon’s invitation will not be necessary for unilateral action to occur.

In the same manner as Gaviria, Calderon has an opportunity to take advantage of the cartels’ terrorist image. He could apply new pressure, to force cartel negotiations for reform, by attacking cartel cash flow in conjunction with his military efforts. Mexico has outdated anti-money laundering (AML) laws and became a member of the Financial Action Task Force in 2003. Unfortunately, its AML laws need to be renewed to include all financial nodes in Mexico’s economy, and the government needs the ability to enforce those laws.<sup>51</sup>

The Financial Action Task Force (FATF) is a voluntary organization promoting worldwide adoption of anti-money laundering and anti-terror funding standards.<sup>52</sup> In 1996, FATF’s purview expanded beyond AML. It requires all suspicious transactions to be reported by financial institutions and the other member countries periodically evaluate all members of FATF.<sup>53</sup> In the summer of 2001, FATF standards were about to be eased by President Bush, but the September 11 attacks revived the organization with an anti-terror finance agenda.<sup>54</sup>

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<sup>49</sup> Barnard R. Thompson, “The Mexican Drug War: Is it ‘Narcoterrorism?’” (17 August, 2010), 2

<sup>50</sup> Ibid., 3

<sup>51</sup> Financial Action Task Force on Money Laundering in South America, *Mutual Evaluation Report: Mexico* (Paris: FATF-GAFI, 2008), 8

<sup>52</sup> FATF-GAFI, *last modified 08 September, 2011*, <http://www.fatf-gafi.org>

<sup>53</sup> The White House, *International Crime Control Strategy* (Washington DC, 1998), 75

<sup>54</sup> Moises Naim, *Illicit: How Smugglers, Traffickers and Copycats are Hijacking the Global Economy* (New York: Anchor Books, 2005), 195

As of the 2008 FATF review of Mexico's AML performance, its laws were below international standards, and inadequate procedures delayed timely asset seizures. Most drug money laundering offenses are not investigated due to insufficient resources, lack of training and ineffective relationships between financial intelligence units and investigating organizations.<sup>55</sup> With the large number of foreign exchanges, deposit, and multi-purpose lending/leasing agencies popping up, registration enforcement failed due to a lack of resources and personnel in the revenue service. Additionally, the Mexican government implemented not one of the FATF standards for 'non-financial' institutions, such as real estate agencies, law and accounting offices, which handle much of the cartel financial transactions.<sup>56</sup> The Mexican government must prevent money laundering within its borders, strangle cartel income, and obtain enough leverage to initiate cartel reform negotiations.

Cartel reform must start at the neighborhood level, within drug producing communities, to transform them gradually. In El Salvador, hundreds of ex-gang members quickly rehabilitated through a pilot program providing various vocational skills and alternative employment.<sup>57</sup> In Honduras, a bank approved multi-million dollar loans that fund small business projects creating more employment opportunities for young people. Similar efforts should be generated throughout Mexico.<sup>58</sup>

Socio-economic improvement, as part of an overall effort to increase Mexico's stability and security, will deny cartel sanctuary and growth as well as solve Mexico's long-term economic problems.<sup>59</sup> Long-term success against cartels depends on the government creating employment for thousands of informal workers in each state, who without

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<sup>55</sup> Financial Action Task Force on Money Laundering in South America, *Mutual Evaluation Report: Mexico* (Paris: FATF-GAFI, 2008), 8

<sup>56</sup> Ibid., 9

<sup>57</sup> Hal Brands, *Mexico's Narco-Insurgency and the US Counterdrug Policy* (Carlisle: Strategic Studies Institute, 2009), 43

<sup>58</sup> Ibid., 43

<sup>59</sup> Ibid., 39



alternative will continue working in the drug trade.<sup>60</sup> Additionally, an increase in employment overall would help to eliminate the effects of corruption and start Mexico on the path towards sustained economic improvement.<sup>61</sup>

Mexico's economic issues are attributed to many factors, but one in particular is its lack of public investment.<sup>62</sup> Public investment is tied to infrastructure development, and unfortunately, Mexico's government did nothing to address this in the last few decades.<sup>63</sup> Alternative jobs created from government investment in infrastructure would stimulate companies to move businesses, such as labor-intensive goods production, into rural Mexican areas.<sup>64</sup> An interesting commonality between the workers at every level of the drug trade is that they all invest what they can domestically in things like livestock, real estate and other lawful investments.<sup>65</sup> This suggests that all wage earners value legitimate investment, despite the legality of their work. In the long run, Mexico's ability to invite investment will be critical to this reform.<sup>66</sup>

Lastly, in order to serve its public, the Mexican government must put more revenue in its coffers to enact any of these socio-economic changes. Mexico must view income taxes as the country's most important source of revenue. Historically, Mexico lacks the resolve to enforce its tax code.<sup>67</sup> The Mexican government's inability to implement its tax laws, results in fewer taxpayers, and subsequent losses in revenue collection.<sup>68</sup> Strangely, Mexico compensates for this with its energy sector. In 2007, Mexico used almost all of its petroleum

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<sup>60</sup> Hal Brands, *Mexico's Narco-Insurgency and the US Counterdrug Policy* (Carlisle: Strategic Studies Institute, 2009), 42

<sup>61</sup> Viridiana Rios, "Evaluating the Economic Impact of Drug Traffic in Mexico," (PhD diss., Harvard University, 2008), 15

<sup>62</sup> Juan Carlos Moreno-Brid and Jamie Ros, *Development and Growth in the Mexican Economy*. (Oxford: Oxford University Press, 2009), 238

<sup>63</sup> Ibid., 240

<sup>64</sup> Colin Gray, "The Hidden Cost of the War on Drugs," (*Stanford Progressive*, May 2010), 2

<sup>65</sup> Viridiana Rios, "Evaluating the Economic Impact of Drug Traffic in Mexico," (PhD diss., Harvard University, 2008), 9

<sup>66</sup> Colin Gray, "The Hidden Cost of the War on Drugs," (*Stanford Progressive*, May 2010), 2

<sup>67</sup> Raul Rodriguez-Walters, "Income and Property Taxes in Mexico," (*Baja Insider*, 2011), 2

<sup>68</sup> Jorge Martinez-Vazquez, "Mexico: An Evaluation of the Main Features of the Tax System" (Georgia State University Andrew Young School of Policy Studies, 2001), 28

revenue as if it was federal taxes.<sup>69</sup> Mexico faces another challenge as its revenue policies continue to change so frequently causing enforcement to become extremely difficult, if not impossible. Consequently, when taxpayers cannot anticipate future tax commitments, investments will suffer.<sup>70</sup> When one considers the masses of unregistered, informal workers who are not paying taxes, it is little wonder Mexico has such a hard time enforcing its domestic monetary policies. If the day comes when Mexico taxes all of its workers and the state and federal governments represent them, there will be less refuge for organized crime and the threatened environment it thrives on will be a thing of the past.

## **CONCLUSIONS and RECOMMENDATIONS**

Strategically, the cartel system is holding Mexico back from achieving its potential in the global market place. Cartel influence hampers legitimate business competition. Violence, combined with rampant corruption, creates insecurity and discourages economic progress in Mexico.

Mexico's track record of poor tax collection and its growing pool of informal cartel workers merely add to the country's economic predicament. Potentially, the gap between the 'haves' and 'have-nots' will widen, and result in greater instability, as the disenfranchised poor see fewer and fewer economic alternatives and opportunities.

The Mexican government's current initiatives in the fight against cartels with the use of force must continue, but military and law enforcement efforts alone are not enough to yield lasting success. In order to regain its ability to govern, specifically with a secure tax

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<sup>69</sup> Juan Carlos Moreno-Brid and Jamie Ros, *Development and Growth in the Mexican Economy*. (Oxford: Oxford University Press, 2009), 244

<sup>70</sup> Jorge Martinez-Vazquez, "Mexico: An Evaluation of the Main Features of the Tax System" (Georgia State University Andrew Young School of Policy Studies, 2001), 29

revenue base, the first step is to break up the unchecked money laundering practices and apply pressure to cartel illicit finance. Second, the creation of employment through government sponsored infrastructure development programs will start the transition of informal workers into fully represented constituents. Third, the government of Mexico must initiate negotiations with cartel leadership in true faith, to explore mutually favorable conditions leading to its participation in an orderly society. Only then will cartel influence be diminished for the long run.

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